

Message Text

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ACTION EA-12

INFO OCT-01 EUR-12 ISO-00 SP-02 USIA-15 AID-05 EB-08
NSC-05 SS-15 STR-05 OMB-01 CEA-01 CIAE-00 COME-00
FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06 LAB-04
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P R 290840Z SEP 77
FM AMEMBASSY TOKYO
TO SECSTATE WASHDC PRIORITY 1566
TREASURY DEPT WASHDC PRIORITY
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME

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BRUSSELS FOR USEEC

PARIS ALSO FOR USOECD

E.O. 11652: N/A
TAGS: EFIN, JA
SUBJECT: FINANCIAL AND ECONOMIC DEVELOPMENTS -- SEP 22-28

1. SUMMARY. ECONOMIC PLANNING AGENCY (EPA) GIVES ITS
PROGNOSIS ON IMPACT OF STIMULUS PROGRAM. ADDITIONAL
BUDGET DETAILS RELEASED: FOURTH QUARTER CREDIT CEILINGS
ANNOUNCED BY BANK OF JAPAN. CHEAPER INTEREST RATES LEAD
TO CORPORATE BOND CALLS. FOREIGN EXCHANGE REGULATIONS
RELAXED SLIGHTLY. BOTH DEPT STORE SALES AND SUPER MARKET
STORE SALES DOWN IN AUG. AUG EXPORT CONTRACT PRICES UP,
IMPORT PRICES FLAT. END SUMMARY.

2. THE ECONOMIC PLANNING AGENCY (EPA) HAS REPORTEDLY
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ESTIMATED THAT THE 2 TRILLION YEN COMPREHENSIVE ECONOMIC
MEASURES ANNOUNCED SEP 3 WILL CREATE APPROXIMATELY 3
TRILLION YEN ADDITIONAL DEMAND DURING COMING YEAR ON
NOMINAL GNP BASIS. EPA EXPECTS ABOUT HALF OF THE IMPACT
(1.5 TO 1.6 TRILLION YEN) TO BE FELT BEFORE THE END OF THE
CURRENT FISCAL YEAR ENDING MARCH 1978. WITH REMAINDER SHOWING
UP IN THE FOLLOWING SIX MONTHS. EPA REPORTEDLY ESTIMATES

THAT ON A NATIONAL ACCOUNTS BASIS, THE 2 TRILLION YEN PROGRAM WILL TRANSLATE INTO ABOUT 1.3 TO 1.4 TRILLION YEN OF ADDITIONAL DIRECT SPENDING ON FINAL GOODS AND SERVICES. THE DIFFERENCE IN THE TWO FIGURES RESULTS FROM THE EXCLUSION OF LAND PURCHASES FROM THE NATIONAL INCOME FIGURES AND THE FACT THAT SOME OF THE PROGRAM WILL REPLACE SIMILAR PRIVATE SPENDING OR WILL BE FINANCED BY SAVINGS IN OTHER GOVT PROJECTS. THE ADDITIONAL DIRECT SPENDING WILL BE SPLIT FAIRLY EVENLY BETWEEN PUBLIC WORKS PROJECTS AND HOUSING INVESTMENT.

EPA EXPECTS THAT ALL BUT 100-200 BIL OF THE PROJECTED 1.3 TO 1.4 TRILLION YEN ADDITIONAL SPENDING WILL BE EXPENDED DURING FY 1977. THE HOUSING LOANS CAN BE ALLOCATED FAIRLY QUICKLY BUT THE PUBLIC WORKS PROJECTS WILL TEND TO BE BUNCHED IN THE JAN-MAR QUARTER WITH SOME SLIPPING OVER INTO THE NEXT FISCAL YEAR. THUS EPA EXPECTS THE DIRECT EFFECTS OF THE PROGRAM TO SHOW UP PRIMARILY IN THE FIRST QUARTER OF CY 1978 WITH MULTIPLIER EFFECTS ON PRIVATE SPENDING EXTENDING INTO THE FIRST HALF OF FY 1978.

3. THE FUND OPERATION COUNCIL, AN ADVISORY COUNCIL TO THE PRIME MINISTER, SEPT 26 APPROVED PROPOSAL TO INCREASE FISCAL LOAN AND INVESTMENT PROGRAM (FLIP) OUTLAY BY 747.4 BIL YEN DURING CURRENT FISCAL YEAR (1977). THE FINAL AMOUNT OF ADDITIONAL FLIP OUTLAY WAS SLIGHTLY SMALLER THAN 760 BIL YEN PREVIOUSLY REPORTED (TOKYO 14730, PARA 5). THIS

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IS BECAUSE OF (1) DOWNWARD REVISION OF ADDITIONAL PUBLIC WORKS OUTLAY IN FLIP FROM PREVIOUSLY ESTIMATED 620.8 BIL YEN TO 610.5 BIL YEN AND (2) REDUCTION OF LOAN TO JAPAN DEVELOPMENT BANK (JDB) AND SOME OTHER GOVT-AFFILIATED FINANCIAL INSTITUTIONS TO TOTAL 106.9 BIL YEN RATHER THAN PREVIOUS ESTIMATE OF 110.0 BIL YEN. THESE ADDITIONAL LOANS TO JDB AND OTHER AGENCIES ARE BEING MADE TO COMPENSATE FOR A REDUCTION IN THEIR BAD DEBT ALLOWANCES. REDUCING THESE BAD DEBT ALLOWANCES WILL HAVE THE EFFECT OF INCREASING THE REPORTED EARNINGS OF THE AGENCIES. THE MINISTRY OF FINANCE (MOF) IS PROPOSING THAT THIS FISCAL YEAR FOR THE FIRST TIME SUCH EARNINGS OF GOVT-AFFILIATED AGENCIES BE AUTOMATICALLY TRANSFERRED TO GENERAL ACCOUNT REVENUES. THUS, THESE OPERATIONS HELP PRESERVE THE LESS-THAN-30 PERCENT PRINCIPLE OF DEFICIT FINANCING. MOST OF ADDITIONAL LOAN EXTENSION THROUGH FLIP TO VARIOUS GOVT-AFFILIATED AGENCIES ONLY REQUIRES APPROVAL OF THE FUND OPERATION COUNCIL; IT DOES NOT REQUIRE APPROVAL OF DIET (WITH ONLY A FEW EXCEPTIONS) AS LONG AS ADDITIONAL AMOUNTS DO NOT EXCEED MORE THAN 50 PERCENT OF THE INITIALLY APPROVED BUDGET.

4. ON SEPT 27 THE BANK OF JAPAN (BOJ) ANNOUNCED CREDIT

EXPANSION LIMITS FOR FOURTH QUARRTER 1977 FOR THE 13 CITY
BANKS OF 1,685 BIL YEN. THIS REPRESENTS A 7.8 PERCENT
INCREASE OVER THE ACTUAL EXPANSION IN THE SAME QUARTER A
YEAR EARLIER AND, IF THE CEILING IS REACHED, WILL BE THE
FIRST TIME IN THE LAST FIVE QUARRTERS THAT THE YEAR-OVER-YEAR
FIGURES HAVE SHOWN ANY INCREASE. A PART OF THE INCREASED
CREDIT LIMIT IS EXPECTED TO BE TAKEN UP BY A CONTINUATION
OF THE "YEN SHIFT" BY WHICH FOREIGN TRADE FINANCING IS BEING
GRADUALLY SHIFTED FROM THE DOLLAR TO THE YEN. DOLLAR LOANS
TO FINANCE TRADE DO NOT COUNT AGAINST THE CREDIT CEILINGS
BUT SIMILAR YEN LOANS DO. ALTHOUGH BOJ OFFICIALS HESITATED
TO SPECULATE ON THE PACE OF THE YEN SHIFT A CITY BANK SOURCE
ESTIMATED THAT OF THE 1,685 BIL LIMIT ON FOURTH
QUARTER CREDIT EXPANSION, BETWEEN 150 AND 200 BIL YEN WOULD
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BE A RESULT OF THE YEN SHIFT. CITY BANK SOURCES ALSO
EXPECT THAT THE FOURTH QUARTER WILL SEE A SLOWDOWN IN
DEBT REPAYMENT OF PRIVATE ENTERPRISES THUS GIVING GREATER
SCOPE FOR AN EXPANSION OF TOTAL BANK LENDING.

EMBASSY ESTIMATES OF CITY BANK CREDIT EXPANSION THROUGH
END OF DEC 1977, BASED ON THE QUARTERLY CREDIT LIMITS,
ARE SHOWN IN THE RIGHT-HAND COLUMN BELOW, THE EXPECTED
8.9 PERCENT FOURTH QUARTER INCREASE IN CITY BANK LOANS
AND DISCOUNTS IS THE SAME AS THE THIRD QUARTER GROWTH AND
DOWN SOMEWHAT FROM EARLIER QUARRTERS.

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P R 290840Z SEP 77

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC PRIORITY 1567

TREASURY DEPT WASHDC

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INCREASE IN LIMITS				
PERCENT OUTSTANDING LOANS AND				
CHARGE DISCOUNTS, AT END OF QUARTER,				
IN BIL YEN FR. PRIOR PERCENT CHANGE FROM PRIOR				
	YEAR	YEAR (NOTE)		
1976: OCT-DEC	1,564	MIN 3.4	10.5	
1977: JAN-MAR	1,130	MIN 1.4	10.0	
APR-JUNE	960	MIN 7.9	9.4 (REV)	
JUL-SEP	1,129	MIN 13.1	8.9 (EST)	
OCT-DEC	1,685	7.8	8.9 (EST)	

NOTE: TOTAL LOANS AND DISCOUNTS BY 13 CITY BANKS, INCLUDING
SMALL AMOUNTS OF FOREIGN CURRENCY LOANS, NOT INCLUDED IN
LENDING LIMITS.

5. SOME JAPANESE ENTERPRISES PLAN TO CALL EXTERNAL BONDS ISSUED
DURING HIGH-RATE PERIODS AND TO ISSUE NEW BONDS AT CHEAPER COSTS
REFLECTING RECENT RAPID DECLINE IN MONEY RATES. ALL NIPPON AIRSAYS
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(ANA) HAS REPORTEDLY RECEIVED PERMISSION OF MOF FOR A PLAN OF
ADVANCED REDEMPTION OF BONDS TOTALING 45 MIL SWISS FRANCS. THE
ANA BONDS CARRYING A COUPON RATE OF 9.75 PERCENT WERE
ISSUED AT 99 PERCENT OF PAR VALUE IN DEC 1974 WITH REDEMP-
TION PERIOD OF FIVE YEARS. ANA PROPOSES TO CALL THE BONDS
ON DEC 5 THIS YEAR AT 101 PERCENT OF PAR VALUE. TO REFINANCE,
ANA PLANS TO ISSUE BONDS IN THE AMOUNT OF 50 MIL
SWISS FRANCS AT A COUPON RATE OF AROUND 5.5 PERCENT ON DEC 1.
MITSUBISHI HEAVY INDUSTRY (MIHI) ALSO PLANS TO CALL
EXTERNAL BONDS TOTALING 100 MIL D.MARKS IN JAN NEXT
YEAR. THE BONDS WERE ISSUED IN DEC 1974 WITH REDEMPTION
PERIOD OF FIVE YEARS. THE MIHI BONDS CARRIED COUPON RATE
OF 9.75 PERCENT AND WERE ISSUED AT 99 PERCENT OF FACE VALUE.
MIHI WILL OFFER TO REDEEM THE BONDS AT 101 PERCENT OF FACE
VALUE. MIHI PLANS TO ISSUE NEW BONDS, NOT IN W. GERMANY
BUT IN JAPAN, TOTALING 20 BIL YEN (ABOUT \$75 MIL) IN OCT
THIS YEAR.

6. MITI RELAXES SOME EXCHANGE CONTROLS. EFFECTIVE OCT 1
THE CEILING ON THE VALUE OF IMPORTS NOT REQUIRING REPORTING
TO FOREIGN EXCHANGE BANKS WILL BE RAISED TO ONE MILLION
YEN FROM THE PRESENT 308,000 YEN. THE CEILING ON THE VALUE

OF PRODUCTS SUBJECT TO EXPORT TRADE CONTROL ORDER THAT CAN BE EXPORTED WITHOUT MITI OR FOREIGN EXCHANGE BANK APPROVAL WILL BE RAISED BY VARIOUS AMOUNTS DEPENDING ON THE PRODUCT. THE PRESENT LIMIT IS 36,000 YEN OR LESS FOR EACH TRANSACTION. THE NEW UPPER LIMIT WILL BE 1 MILLION YEN FOR SOME PRODUCTS AND LESS FOR OTHERS. TRADE DEALS BASED ON EASIER TERMS THAN THE STANDARD METHOD OF SETTLEMENT WILL NO LONGER REQUIRE MITI OR FOREX BANK AUTHORIZATION IF THEY ARE FOR ONE MILLION YEN OR LESS. ALSO AS OF OCT 1, THIRD-PARTY TRADE INVOLVING JAPANESE INTERESTS WILL NO LONGER REQUIRE MITI APPROVAL BUT CAN UNCLASSIFIED

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BE HANDLED BY REPORTING TO FOREX BANKS. NO REPORTING WILL BE REQUIRED FOR THIRD-PARTY TRADE DEALS IF THE VALUE IS ONE MIL YEN OR LESS. THIS NEW PROVISION DOES NOT APPLY TO RHODESIAN TRADE.

7. DEPARTMENT STORE SALES, SEASONALLY ADJUSTED, DECLINED AGAIN IN AUG, DOWN 2.4 PERCENT FROM PRIOR MONTH, AFTER SHARP INCREASE IN PRIOR MONTH. DECLINE IN SALES OF CLOTHING AS WELL AS APPAREL AND ACCESSORIES CONTRIBUTED TO SLUGGISH SALES PERFORMANCE DURING AUGUST.

DEPARTMENT STORE SALES, SEASONALLY ADJUSTED (JEI 302)

INDEX (1970 EQUALS 100) PERCENT CHANGE FROM
PRIOR MONTH

JUNE	252.5	MIN 3.1
JULY	266.3	5.5
AUG	260.0	MIN 2.4

BEGINNING THIS MONTH, EMBASSY WILL ALSO REPORT RETAIL SALES OF LARGE-SCALE SELF-SERVICE TYPE STORES, WHICH HAVE BEEN GROWING MORE RAPIDLY THAN SALES OF DEPT STORES IN RECENT YEARS. NO SEASONALLY ADJUSTED DATA ARE CURRENTLY AVAILABLE FOR THIS SERIES. DATA BELOW INDICATE SALES OF LARGE-SCALE SELF-SERVICE-TYPE STORES HAVE BEEN GROWING RAPIDLY, BY 19 PERCENT ON YEAR-OVER-YEAR COMPARISON, DURING FIRST 8 MONTHS OF THIS YEAR WHEREAS DEPT STORE SALES REMAINED SLUGGISH, RISING BY ONLY 7 PERCENT DURING THE SAME PERIOD.

RETAIL SALES (IN BIL YEN, NOT SEASONALLY ADJUSTED)

RECENT PERIOD	DEPT STORE	SELF-SERVICE-TYPE STORES
(MONTHLY AVG):	(PCT CHANGE FROM YR. EARLIER SHOWN IN PAREN)	

1975	374.0 (10.6)	256.8 (18.8)
1976	406.1 (8.6)	295.9 (15.2)
1977* JAN-MAR	368.3 (7.1)	300.1 (16.2)
APR-JUNE	383.4 (6.3)	330.4 (17.8)

RECENT MONTHS:

MAY	377.1 (6.1)	332.2 (18.4)
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JUNE	382.4 (5.0)	329.2 (18.9)
JULY	540.9 (8.5)	398.4 (27.7)
AUG	357.3 (4.8)	341.9 (21.2)

7. EXPORT CONTRACT PRICE INDEX (1970 EQUALS 100, N.S.A.,
JEI 80) ROSE IN AUG TO 135.5 WHEREAS IMPORT
CONTRACT PRICE INDEX (N.S.A., JEI 88) REMAINED INCHANGED
FROM PRIOR MONTH AT 200.8.
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Message Attributes

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Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
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Disposition Event:
Disposition History: n/a
Disposition Reason:
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Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
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Format: TEL
From: TOKYO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t1977095/aaaaaekn.tel
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